

Message Text

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ACTION ARA-14

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FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC IMMEDIATE 5910

C O N F I D E N T I A L MONTEVIDEO 0639

E.O. 11652: GDS

TAGS: EFIN, SHUM, UY

SUBJECT: IFI LOANS TO URUGUAY - COMMENTS FOR FEBRUARY 27
MEETING

REF: (A) STATE 047601 (B) STATE 045685 (C) MONTEVIDEO 0428

1. BACKGROUND TO CURRENT OPTIONS FOR COMMUNICATING U.S.
STANCE ON PROSPECTIVE IBRD/IDB FINANCING OF SALTO GRANDE
ELECTRICAL DISTRIBUTION SYSTEM CONSISTS OF THE FOLLOWING
IMPORTANT ELEMENTS:

A. AMBASSADOR MADE SEPT, 1977 VERBAL DEMARCHE TO
SEPLACODI (PLANNING OFFICE) DIRECTOR BRIGADIER JOSE
CARDOZO, INFORMING HIM OF U.S. INTENTION TO VOTE AGAINST THEN
UPCOMING IDB PROJECTS FOR PASO SEVERINO WATER SYSTEM AND
TECHNICAL ASSISTANCE FOR THE BANK OF THE REPUBLIC (BOR).

B. BOR PROJECT WAS THEN NOT SUBMITTED BECAUSE GOU RECOGNIZED
USG HAS FSO VETO, BUT PASO SEVERINO WAS RESUBMITTED QUICKLY
WITH ALL OC FUNDING AND PASSED OVER U.S. NEGATIVE VOTE IN
DECEMBER, 1977. A COASTAL HIGHWAY LOAN WAS ALSO SUBJECT OF
U.S. NEGATIVE VOTE IN DECEMBER, BUT WAS APPROVED BY THE IDB
BOARD.

C. EXIM DENIED GENERAL ELECTRIC BID FOR GUARANTEES
FINANCING FOR \$10 MILLION IN ELECTRICAL EQUIPMENT
RELATED TO THE SAME SALTO GRANDE PROJECT, ALSO IN
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DECEMBER, 1977. (EMBASSY KNOWS TO DATE OF NO OTHER EXIM
DENIALS.)

D. EMBOFF EXCHANGES WITH ALL LEVELS OF GOU HAVE EMPHASIZED THAT
U.S. WILL WELCOME AND RESPOND TO ACTS
SIGNIFICANTLY IMPROVING HR PERFORMANCE OF THE GOU, BUT THAT
NO SIGNIFICANT PROGRESS HAS BEEN OBSERVED TO DATE.

E. CHANGE OF MILITARY LEADERSHIP IN FEBRUARY, UNDER

NORMAL ROTATION OF ARMY AND AIR FORCE CINCS, MAY LEAD TO SOME IMPROVEMENTS IN HUMAN RIGHTS SITUATION HERE. EMBASSY, THEREFORE, BELIEVES IT IMPORTANT FOR THE MOMENT TO AVOID ACTIONS ALMOST CERTAIN TO BRING NEGATIVE GOU REACTIONS UNLESS WE ARE COMPELLED TO TAKE THEM.

2. GIVEN THIS BACKGROUND WE BELIEVE OPTIONS A AND B IN PARA 2 REFTEL ARE NOT REALLY VIABLE. THEY ARE NOT LIKELY TO PRODUCE THE DESIRED RESULT OF GETTING THE GOU VOLUNTARILY TO WITHDRAW THESE LOANS. THEY MOST LIKELY WILL FORTIFY THE GOU'S RESOLVE AS IN THE PASO SEVERINO CASE, TO PROCEED, CONFIDENT THAT THE USG DOES NOT HAVE THE VOTES TO STOP THEM. INSTEAD WE BELIEVE THE LONGER TERM EFFECTIVENESS OF OUR LEVERAGE LIES IN THE APPROACH EMBODIED IN PRESIDENTIAL DIRECTIVE NO. 30: HUMAN RIGHTS, PARA. 7 (REFTEL B); QUOTE TO THIS END, FUTURE U.S. ACTIONS IN THE INTERNATIONAL FINANCIAL INSTITUTIONS SHALL SEEK TO: UTILIZE MOST EFFECTIVELY BOTH OUR VOICE AND OUR VOTE; UNDERSTAND AND ATTEMPT TO INFLUENCE THE BANKS' ACTIONS AS EARLY AS POSSIBLE IN THE LOAN PROCESS; AND, ENGAGE THE SUPPORT OF OTHER NATIONS AND MULTILATERAL ORGANIZATIONS. UNQUOTE. FOR THE TIME BEING, OUR BEST HOPE LIES NOT IN INFORMING THE GOU OF OUR INTENTION TO EXERCISE A NEGATIVE VOTE SOME MONTHS FROM NOW, BUT IN USING OUR DIPLOMATIC INFLUENCE (VOICE) WITHIN THE BANKS TO DELAY ACTION ON THE LOANS (WHICH AS REFTEL C INDICATES ARE NOT MOVING RAPIDLY IN ANY EVENT) TO GIVE THE NEW GOU LEADERSHIP THE TIME TO IMPROVE HUMAN RIGHTS PERFORMANCE. IF CONFIDENTIAL

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THEY DO SO, THEIR POSITIVE ACTIONS WOULD PERMIT US, AS DIRECTED IN P.D. 30, TO APPROPRIATELY ACKNOWLEDGE IMPROVEMENTS.

3. AS FOR "BASIC HUMAN NEEDS" ASPECT, PRIMARY EFFECTS OF INCREASED HYDRO-GENERATED ELECTRICAL SUPPLY ARE LIKELY TO BE DECREASED PETROLEUM IMPORTS AND ATTENDANT FOREIGN EXCHANGE SAVINGS, POSSIBLY LOWERED CONSUMER COST (RELATIVE TO CONTINUED USE OF ALTERNATE PETROLEUM BASED POWER GENERATION), AND MORE FAVORABLE POWER COSTS FOR NEW INDUSTRY, INVITING NEW INVESTMENT IN URUGUAY. ALTHOUGH EMPLOYMENT GENERATING POTENTIAL AND POSSIBLE CONSUMER SAVINGS WOULD BE IMPORTANT TO THE WORKING PERSON IN THIS ECONOMY OF RISING UNEMPLOYMENT AND FALLING REAL WAGES, THIS DOES NOT APPEAR TO SATISFY "BASIC HUMAN NEEDS" CRITERIA AS WE UNDERSTAND THEM. PEZZULLO

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